

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Elliott County Fiscal Court for the fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$1,434,960 as of June 30, 2007. The fiscal court had unrestricted net assets of \$250,267 in its governmental activities as of June 30, 2007. The fiscal court had total debt principal as of June 30, 2007 of \$4,639,959 with \$146,000 due within the next year.

Report Comments:

- 2007-01 Expenditures Should Have Proper Documentation And Meet Compliance Requirements
- 2007-02 The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code
- 2007-03 The County Judge/Executive Improperly Spent \$26,500 Of County Road Aid Money
- 2007-04 The Fiscal Court Increased The County Jailer's Salary In Excess of the Consumer Price Index By \$5,823
- 2007-05 The Fiscal Court Should Approve An Annual Compensation Schedule
- 2007-06 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Blair, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Elliott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Elliott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404

TELEPHONE 502.573.0050
FACSIMILE 502.573.0067
WWW.AUDITOR.KY.GOV

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Blair, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Elliott County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2008, on our consideration of Elliott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-01 Expenditures Should Have Proper Documentation And Meet Compliance Requirements
- 2007-02 The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code
- 2007-03 The County Judge/Executive Improperly Spent \$26,500 Of County Road Aid Money
- 2007-04 The Fiscal Court Increased The County Jailer's Salary In Excess of the Consumer Price Index By \$5,823
- 2007-05 The Fiscal Court Should Approve An Annual Compensation Schedule
- 2007-06 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 25, 2008

ELLIOTT COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

David Blair	County Judge/Executive
Billy Ray Wilson	Magistrate
Mitchell Oney	Magistrate
Kathy Adkins	Magistrate
Brian Dillon	Magistrate
Georgia Ison	Magistrate
Stanley Jenkins	Magistrate
Diane Penix	Magistrate

Other Elected Officials:

John Lewis, Jr.	County Attorney
Charlie Howard	Jailer
Reeda Ison	County Clerk
Jason Ison	Circuit Court Clerk
Ronnie Stephens	Sheriff
Lovell Mayse	Property Valuation Administrator
Mark Lewis	Coroner

Appointed Personnel:

Trina Sartaine	County Treasurer
Jimmy Adkins	Road Supervisor

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ELLIOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

ELLIOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 250,267
Total Current Assets	<u>250,267</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	233,000
Buildings	4,034,257
Vehicles	91,779
Equipment	282,212
Infrastructure Assets - Net of Depreciation	<u>1,183,404</u>
Total Noncurrent Assets	<u>5,824,652</u>
Total Assets	<u>6,074,919</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	80,000
Financing Obligations Payable	<u>66,000</u>
Total Current Liabilities	<u>146,000</u>
Noncurrent Liabilities:	
Bonds Payable	3,065,000
Financing Obligations Payable	<u>1,428,959</u>
Total Noncurrent Liabilities	<u>4,493,959</u>
Total Liabilities	<u>4,639,959</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,184,693
Unrestricted	<u>250,267</u>
Total Net Assets	<u><u>\$ 1,434,960</u></u>

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

ELLIOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues Received	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 924,714	\$ 190,167	\$ 330,236
Protection to Persons and Property	169,547	17,818	210,893
General Health and Sanitation	532,574		
Recreation and Culture	405,430	1,382	
Roads	1,340,917		362,305
Debt Service	526,817		
Total Governmental Activities	3,884,190	209,367	903,434

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
	<u>Primary Government</u>
<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
\$ 900	\$ (403,411)
515,000	574,164
	(532,574)
	(404,048)
577,485	(401,127)
125,000	(401,817)
<u>1,218,385</u>	<u>(1,553,004)</u>
	133,148
	4,439
	52,751
	41,269
	183,107
	<u>9,766</u>
	<u>424,480</u>
	(1,128,524)
	<u>2,563,484</u>
	<u>\$ 1,434,960</u>

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2007

ELLIOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Economic Development Fund	Library Operating Fund	Library Bond Fund
ASSETS					
Cash and Cash Equivalents	\$ 6,093	\$ 2,165	\$ 57,340	\$ 41,977	\$ 109,686
Total Assets	<u>6,093</u>	<u>2,165</u>	<u>57,340</u>	<u>41,977</u>	<u>109,686</u>
FUND BALANCES					
Unreserved:					
General Fund	6,093				
Special Revenue Funds		2,165	57,340	41,977	
Debt Service Funds					109,686
Total Fund Balances	<u>\$ 6,093</u>	<u>\$ 2,165</u>	<u>\$ 57,340</u>	<u>\$ 41,977</u>	<u>\$ 109,686</u>

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 250,267
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Governmental Funds.	7,593,716
Accumulated Depreciation	(1,769,064)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations Principal	(1,494,959)
Bonded Debt Principal	<u>(3,145,000)</u>
Net Assets Of Governmental Activities	<u>\$ 1,434,960</u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

Road Improvement Series 2007 Bond Fund	Public Properties Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
<u>\$ 4,403</u>	<u>\$ 7,406</u>	<u>\$ 21,197</u>	<u>\$ 250,267</u>
<u>4,403</u>	<u>7,406</u>	<u>21,197</u>	<u>250,267</u>
			6,093
		21,197	122,679
<u>4,403</u>	<u>7,406</u>		<u>121,495</u>
<u>\$ 4,403</u>	<u>\$ 7,406</u>	<u>\$ 21,197</u>	<u>\$ 250,267</u>

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Economic Development Fund	Waterline Extension Fund
REVENUES				
Taxes	\$ 229,718	\$	\$	\$
Licenses and Permits	1,514			
Intergovernmental	244,925	811,033		515,000
Charges for Services				
Miscellaneous	49,004	34,805	95,451	1
Interest	131	384	202	
Total Revenues	<u>525,292</u>	<u>846,222</u>	<u>95,653</u>	<u>515,001</u>
EXPENDITURES				
General Government	427,426	4,200		
Protection to Persons and Property	43,414			
General Health and Sanitation	13,001	4,573		515,000
Recreation and Culture	150,684			
Roads	7,337	793,271	4,954	
Debt Service	41,156	24,992	16,750	
Administration	229,790	89,816		
Total Expenditures	<u>912,808</u>	<u>916,852</u>	<u>21,704</u>	<u>515,000</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(387,516)</u>	<u>(70,630)</u>	<u>73,949</u>	<u>1</u>
Other Financing Sources (Uses)				
Bond Proceeds				
Financing Obligation Proceeds		19,959		
Discount on Bond Issuance Proceeds				
Payments to Refunded Bond Escrow Agent				
Transfers To Other Funds	(22,000)	(222,690)	(16,730)	(1)
Transfers From Other Funds	385,924	216,188		
Total Other Financing Sources (Uses)	<u>363,924</u>	<u>13,457</u>	<u>(16,730)</u>	<u>(1)</u>
Net Change in Fund Balances	(23,592)	(57,173)	57,219	
Fund Balances - Beginning	29,685	59,338	121	
Fund Balances - Ending	<u>\$ 6,093</u>	<u>\$ 2,165</u>	<u>\$ 57,340</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Library Operating Fund	Library Bond Fund	Road Improvement Series 2007 Bond Fund	Public Properties Corporation Bond Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$	\$ 1,859	\$ 231,577
					1,514
	125,000		96,322	531,296	2,323,576
				3,845	3,845
29				6,102	185,392
207	266	281	7,528	763	9,762
236	125,266	281	103,850	543,865	2,755,666
				110,449	542,075
				154,020	197,434
					532,574
32,647				235,623	418,954
				87,911	893,473
	122,607	147,280	121,813		474,598
4,955				5,016	329,577
37,602	122,607	147,280	121,813	593,019	3,388,685
(37,366)	2,659	(146,999)	(17,963)	(49,154)	(633,019)
		1,405,000	1,770,000		3,175,000
					19,959
		(7,025)	(18,767)		(25,792)
		(950,064)	(1,887,583)		(2,837,647)
		(416,738)		(33,483)	(711,642)
		16,730		92,800	711,642
		47,903	(136,350)	59,317	331,520
(37,366)	2,659	(99,096)	(154,313)	10,163	(301,499)
79,343	107,027	103,499	161,719	11,034	551,766
\$ 41,977	\$ 109,686	\$ 4,403	\$ 7,406	\$ 21,197	\$ 250,267

The accompanying notes are an integral part of the financial statements.

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**ELLIOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

ELLIOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ (301,499)

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because: Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	118,315
Depreciation Expense	(523,404)
Disposal of Capital Assets (Net)	(38,197)

Financing Obligation Proceeds Provide a Current Financial Resource to Governmental Funds While Lease and Bond Principal Payments Are Expensed In the Governmental Funds as a Use of Current Financial Resources.

Bond Proceeds	(3,175,000)
Financing Obligation Proceeds	(19,959)
Payment to Refunded Bond Escrow Agent (Principal of \$2,695,000)	2,837,647

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Notes Payable Principal Payments	26,220
Financing Obligations Principal Payments	60,000
Bond Principal Payment	30,000
Change in Long-term Debt as a Result of Refunding Bonds	<u>(142,647)</u>

Change in Net Assets of Governmental Activities	<u>\$ (1,128,524)</u>
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TO THE FINANCIAL STATEMENTS**

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ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Elliott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Elliott County Public Properties Corporation:

The Elliott County Public Properties Corporation (Corporation) cannot be sued in its own name without recourse to the Elliott County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agency in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

C. Elliott County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Elliott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Elliott County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Economic Development Fund - The purpose of this fund is to account for receipts and expenditures of grants that would be expended for local development projects.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Waterline Extension Fund – The purpose of this fund is to account for receipts and expenditures from a state grant for waterlines.

Library Operating Fund – This fund is used to account for grants and operating expenditures paid on behalf of the Elliott County Public Library.

Library Bond Fund – The primary purpose of this fund is to pay for the long-term debt of the Elliott County Public Library.

Road Improvement Series 2007 Bond Fund – This fund is used to pay the long-term debt for the county road bonds.

Elliott County Public Properties Corporation Fund – This fund issued the debt for the construction of the courthouse annex. This fund has receipts from the Administrative Office of the Courts in the amount necessary to make the debt payments associated with the courthouse annex.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Fire Protection Fund, Local Government Economic Development Fund, Welcome Center Fund, and Agriculture Fund.

Special Revenue Funds:

The Road Fund, Economic Development Fund, Library Operating Fund, Waterline Extension Fund, Jail Fund, Local Government Economic Assistance Fund, Fire Protection Fund, Local Government Development Assistance Fund, Welcome Center Fund, and Agriculture Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Elliott County Public Properties Corporation Fund, Library Bond Fund, and Road Improvement Series 2007 Bond Fund are presented as debt service funds. Debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-20
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" is purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Elliott County Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Governor's Office for Local Development does not require this fund to be budgeted.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility of the participating governments. The jointly governed organization can act independently of each of the participating governments. The Elliott, Morgan and Rowan Counties Industrial Park (EMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 248,000	\$	\$ (15,000)
Total Capital Assets Not Being Depreciated	248,000		233,000
Capital Assets, Being Depreciated:			
Buildings	4,507,434	14,000	(25,905)
Equipment	579,419	2,000	(11,393)
Vehicles	129,730	102,315	(39,745)
Infrastructure	2,102,861		2,102,861
Total Capital Assets Being Depreciated	7,319,444	118,315	(77,043)
Less Accumulated Depreciation For:			
Buildings	(402,822)	(72,726)	14,276
Equipment	(272,807)	(22,781)	7,774
Vehicles	(100,371)	(31,946)	31,796
Infrastructure	(523,506)	(395,951)	
Total Accumulated Depreciation	(1,299,506)	(523,404)	53,846
Total Capital Assets, Being Depreciated, Net	6,019,938	(405,089)	(23,197)
Governmental Activities Capital Assets, Net	\$ 6,267,938	\$ (405,089)	\$ (38,197)
			\$ 5,824,652

Note 3. Capital Assets (Continued)

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 37,253
Protection to Persons and Property	21,469
Recreation and Culture	35,476
Roads, Including Depreciation of General Infrastructure Assets	<u>429,206</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 523,404</u>

Note 4. Long-term Debt

A. Refunding Revenue Bonds, Series 2006

On November 16, 2006, the Elliott County Public Properties Corporation, a component unit of the Elliott County Fiscal Court, issued \$1,770,000 in First Mortgage Refunding Revenue Bonds, Series 2006, for the purpose of defeasing the First Mortgage Revenue Bonds, Series 2000. The 2000 series bonds were issued to renovate the existing courthouse facility. On May 1, 2000, the county entered into a lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. Interest on the bonds is payable semi-annually in September and March of each year commencing March 1, 2007. Principal payments are payable annually commencing March 1, 2007. As of June 30, 2007, the principal balance on these bonds was \$1,740,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 80,000	\$ 66,280
2009	85,000	63,480
2010	90,000	60,505
2011	90,000	57,355
2012	95,000	54,205
2013-2017	520,000	218,080
2018-2022	630,000	112,155
2023	<u>150,000</u>	<u>6,000</u>
Totals	<u>\$ 1,740,000</u>	<u>\$ 638,060</u>

Note 4. Long-term Debt (Continued)

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

B. Financing Obligations - Courthouse Renovation

On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust to finance the completion of the renovation of the county's courthouse facility in the amount of \$240,000. The agreement requires two semiannual interest payments be made in March and September of each year. Principal payments are due in September of each year to be paid in full September 20, 2026. As of June 30, 2007, the principal balance remaining was \$215,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 5,000	\$ 12,920
2009	5,000	12,690
2010	5,000	12,460
2011	5,000	12,220
2012	10,000	11,845
2013-2017	50,000	51,613
2018-2022	60,000	37,700
2023-2027	75,000	17,250
Totals	<u>\$ 215,000</u>	<u>\$ 168,698</u>

C. Financing Obligation – Library Fund

On December 20, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust for the construction of the Elliott County Public Library in the amount of \$1,510,000. Semiannual principal and interest payments are required in May and November of each year. As of June 30, 2007, the principal balance remaining was \$1,260,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 55,000	\$ 64,979
2009	60,000	62,363
2010	65,000	59,454
2011	65,000	56,366
2012	70,000	53,090
2013-2017	410,000	205,787
2018-2022	535,000	77,839
Totals	<u>\$ 1,260,000</u>	<u>\$ 579,878</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

D. General Obligation Road Improvement Bonds

On May 24, 2007, the Elliott County Fiscal Court issued \$1,405,000 in General Obligation Refunding and Improvement Notes, Series 2007, for the purpose of defeasing the General Obligation Road Improvement Bonds, Series 2005 and to payoff a bank note. The 2005 series bonds were issued for the blacktopping of new roads and resurfacing of old roads. Interest on the note is payable semi-annually in January and July of each year commencing January 1, 2008. One principal payment in the amount of \$1,405,000 is due on July 1, 2010. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$	\$ 32,783
2009		56,200
2010		56,200
2011	1,405,000	28,100
Totals	\$ 1,405,000	\$ 173,283

E. Financing Obligations - Vehicle

On January 29, 2007, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to purchase a vehicle in the amount of \$19,959. The agreement requires 29 monthly payments at a 4.25% interest rate to be paid in full on July 20, 2009. As of June 30, 2007, the principal amount outstanding was \$19,959. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 6,000	\$ 615
2009	7,000	321
2010	6,959	25
Totals	\$ 19,959	\$ 961

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
First Mortgage Revenue Bonds, Series (a)	\$ 1,750,000	\$	\$ 1,750,000	\$	\$
First Mortgage Refunding Revenue Bonds, Series 2006		1,770,000	30,000	1,740,000	80,000
General Obligation Road Improvement Bonds, Series 2005 (b)	945,000		945,000		
General Obligation Refunding and Improvement Notes, Series 2007		1,405,000		1,405,000	
Financing Obligations Note Payable	1,535,000 26,220	19,959	60,000 26,220	1,494,959	66,000
Governmental Activities Long-term Liabilities	<u>\$ 4,256,220</u>	<u>\$ 3,194,959</u>	<u>\$ 2,811,220</u>	<u>\$ 4,639,959</u>	<u>\$ 146,000</u>

- (a) The \$1,750,000 of reductions for Revenue Bonds, 2000 Series, was the result of a refunding bond issue, thus this amount is not reflected in the financial statements as bond principal payments. This reduction is included in the financial statements under other financing uses as payments to refunded bond escrow agent.
- (b) The \$945,000 of reductions for Revenue Bonds, 2005 Series, was the result of a refunding bond issue, thus this amount is not reflected in the financial statements as bond principal payments. This reduction is included in the financial statements under other financing uses as payments to refunded bond escrow agent.

Note 5. Short-term Debt

- A. On January 12, 2007, the Elliott County Fiscal Court borrowed \$250,000 at an interest rate of 6% from Kentucky Bank. The note requires one principal payment of \$250,000 plus interest on June 30, 2007. On June 12, 2007, this note was paid in full from the proceeds from the General Obligation Refunding and Improvement Notes, Series 2007.
- B. On April 24, 2007, the Elliott County Fiscal Court borrowed an additional \$100,000 at an interest rate of 6% from Kentucky Bank. The note requires one principal payment of \$100,000 plus interest on June 30, 2007. On June 12, 2007, this note was paid in full from the proceeds from the General Obligation Refunding and Improvement Notes, Series 2007.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Interest on Long-term Debt

Debt service on the Statement of Activities includes \$298,842 of interest on long-term debt. Also, there was a change in long-term debt in the amount of \$216,179 as a result of a refunding bond issue included in Debt Service.

Note 7. Employee Retirement System

The fiscal court elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Elliott County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2007, Elliott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustment

The prior year beginning fund balances and beginning net assets have been restated for the following. The Road Improvement Bond Fund beginning balance increased \$103,499. The Public Properties Bond Fund decreased \$614. The 911 Fund decreased \$1. Additionally, there was a change in the capital asset balance of \$7,101, resulting in a total increase in the beginning net assets of \$109,985.

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ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 258,200	\$ 261,211	\$ 229,718	\$ (31,493)
In Lieu Tax Payments	15,100	15,100		(15,100)
Licenses and Permits	3,000	4,014	1,514	(2,500)
Intergovernmental Revenue	129,120	278,154	244,925	(33,229)
Miscellaneous	7,250	27,157	49,004	21,847
Interest	500	500	131	(369)
Total Revenues	<u>413,170</u>	<u>586,136</u>	<u>525,292</u>	<u>(60,844)</u>
EXPENDITURES				
General Government	338,267	348,609	427,426	(78,817)
Protection to Persons and Property	38,851	44,212	43,414	798
General Health and Sanitation	18,001	18,001	13,001	5,000
Recreation and Culture	1,000	147,684	150,684	(3,000)
Roads			7,337	(7,337)
Debt Service	18,141	18,141	41,156	(23,015)
Administration	199,600	369,929	229,790	140,139
Total Expenditures	<u>613,860</u>	<u>946,576</u>	<u>912,808</u>	<u>33,768</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(200,690)</u>	<u>(360,440)</u>	<u>(387,516)</u>	<u>(27,076)</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(22,000)	(22,000)	(22,000)	
Transfers From Other Funds	222,690	222,690	385,924	163,234
Borrowed Money		159,750		(159,750)
Total Other Financing Sources (Uses)	<u>200,690</u>	<u>360,440</u>	<u>363,924</u>	<u>3,484</u>
Net Changes in Fund Balance			(23,592)	(23,592)
Fund Balance - Beginning			29,685	29,685
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,093</u>	<u>\$ 6,093</u>

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 825,146	\$ 835,393	\$ 811,033	\$ (24,360)
Miscellaneous	53,500	64,839	34,805	(30,034)
Interest	500	500	384	(116)
Total Revenues	<u>879,146</u>	<u>900,732</u>	<u>846,222</u>	<u>(54,510)</u>
EXPENDITURES				
General Government	4,200	4,200	4,200	
General Health and Sanitation	18,227	18,227	4,573	13,654
Roads	504,229	514,476	793,271	(278,795)
Debt Service	51,700	51,700	24,992	26,708
Administration	78,100	308,556	89,816	218,740
Total Expenditures	<u>656,456</u>	<u>897,159</u>	<u>916,852</u>	<u>(19,693)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>222,690</u>	<u>3,573</u>	<u>(70,630)</u>	<u>(74,203)</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			19,959	19,959
Transfers To Other Funds	(222,690)	(222,690)	(222,690)	
Transfers From Other Funds			216,188	216,188
Borrowed Money		216,188		(216,188)
Total Other Financing Sources (Uses)	<u>(222,690)</u>	<u>(6,502)</u>	<u>13,457</u>	<u>19,959</u>
Net Changes in Fund Balance		(2,929)	(57,173)	(54,244)
Fund Balance - Beginning		<u>2,929</u>	<u>59,338</u>	<u>56,409</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,165</u>	<u>\$ 2,165</u>

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

ECONOMIC DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 16,810	\$ 50,090	\$ 95,451	\$ 45,361
Interest	200	200	202	2
Total Revenues	17,010	50,290	95,653	45,363
EXPENDITURES				
Roads		7,972	4,954	3,018
Debt Service	17,010	17,010	16,750	260
Administration		25,396		25,396
Total Expenditures	17,010	50,378	21,704	28,674
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(88)	73,949	74,037
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(16,730)	(16,730)
Total Other Financing Sources (Uses)			(16,730)	(16,730)
Net Changes in Fund Balance		(88)	57,219	57,307
Fund Balance - Beginning		88	121	33
Fund Balance - Ending	\$ 0	\$ 0	\$ 57,340	\$ 57,340

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

WATERLINE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 515,000	\$ 515,000	\$ 515,000	\$
Miscellaneous			1	1
Total Revenues	<u>515,000</u>	<u>515,000</u>	<u>515,001</u>	<u>1</u>
EXPENDITURES				
General Health and Sanitation	<u>515,000</u>	<u>515,000</u>	<u>515,000</u>	
Total Expenditures	<u>515,000</u>	<u>515,000</u>	<u>515,000</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			1	1
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(1)	(1)
Total Other Financing Sources (Uses)			<u>(1)</u>	<u>(1)</u>
Net Changes in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LIBRARY OPERATING FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$	\$	\$ 29	\$ 29
Interest	200	200	207	7
Total Revenues	200	200	236	36
EXPENDITURES				
Recreation and Culture	27,612	27,612	32,647	(5,035)
Administration	43,588	46,388	4,955	41,433
Total Expenditures	71,200	74,000	37,602	36,398
Excess (Deficiency) of Revenues Over Expenditures	(71,000)	(73,800)	(37,366)	36,434
Net Changes in Fund Balance	(71,000)	(73,800)	(37,366)	36,434
Fund Balance - Beginning	71,000	73,800	79,343	5,543
Fund Balance - Ending	\$ 0	\$ 0	\$ 41,977	\$ 41,977

ELLIOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level. The Road Fund was overspent by \$19,693.

**ELLIOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

ELLIOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2007

	Jail Fund	Local Government Economic Assistance Fund	Fire Protection Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 19,273	\$ 14	\$ 1,910	\$ 21,197
Total Assets	<u>19,273</u>	<u>14</u>	<u>1,910</u>	<u>21,197</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	19,273	14	1,910	21,197
Total Fund Balances	<u>\$ 19,273</u>	<u>\$ 14</u>	<u>\$ 1,910</u>	<u>\$ 21,197</u>

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

ELLIOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Jail Fund	Local Government Economic Assistance Fund	Fire Protection Fund	Local Government Economic Development Fund
REVENUES				
Taxes	\$	\$	\$ 1,859	\$
Intergovernmental	72,303	128,757		95,236
Charges for Services	3,845			
Miscellaneous	5,202			
Interest	68	68	4	
Total Revenues	<u>81,418</u>	<u>128,825</u>	<u>1,863</u>	<u>95,236</u>
EXPENDITURES				
General Government		10,900		95,236
Protection to Persons and Property	154,020			
Recreation and Culture				
Roads		87,911		
Administration	4,810			
Total Expenditures	<u>158,830</u>	<u>98,811</u>		<u>95,236</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(77,412)</u>	<u>30,014</u>	<u>1,863</u>	
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	85,800			
Transfers To Other Funds		(30,000)		
Total Other Financing Sources (Uses)	<u>85,800</u>	<u>(30,000)</u>		
Net Change in Fund Balances	8,388	14	1,863	
Fund Balances - Beginning	10,885		47	
Fund Balances - Ending	<u>\$ 19,273</u>	<u>\$ 14</u>	<u>\$ 1,910</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Welcome Center Fund	Agriculture Fund	Total Non-Major Governmental Funds
\$	\$	\$
	235,000	1,859
		531,296
		3,845
900		6,102
	623	763
900	235,623	543,865
4,313		110,449
		154,020
	235,623	235,623
		87,911
206		5,016
4,519	235,623	593,019
(3,619)		(49,154)
7,000		92,800
(3,483)		(33,483)
3,517		59,317
(102)		10,163
102		11,034
\$ 0	\$ 0	\$ 21,197

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Blair, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 25, 2008. Elliott County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elliott County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Elliott County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Elliott County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting: 2007-06.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Elliott County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2007-01, 2007-02, 2007-03, 2007-04, and 2007-05.

The Elliott County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 25, 2008

COMMENTS AND RECOMMENDATIONS

**ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2007

STATE LAWS AND REGULATIONS

2007-01 Expenditures Should Have Proper Documentation And Meet Compliance Requirements

KRS 68.275(2) requires the county judge/executive to present all claims to fiscal court for review prior to payment. Of the 60 expenditures tested, 2 expenditures totaling \$113,351 were not approved and properly recorded in the fiscal court minute book. One expenditure totaling \$20,494 did not have supporting documentation. We recommend the Treasurer and Judge/Executive prepare, review, and submit an accurate claims list to the fiscal court each month and maintain all supporting documentation for expenditures.

County Judge/Executive David Blair's Response:

The two checks written in August 2006 and December 2006 was done by the Charles Pennington administration. The check to the Kentucky State Treasurer was for money belonging to the Elliott County Extension office for agriculture purposes at their requests. We returned their money to the State Treasurer. We are no longer handling these funds. They were never county funds. We get prior approval from the Fiscal Court to pay bills and attach copies of check and original invoice to purchase order and cancel out the purchase order.

2007-02 The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code

The fiscal court did not follow bidding requirements outlined in the county's administrative code. We noted one (1) specific instance where the county purchased a used fire truck in the amount of \$27,000. The county's administrative code requires that if an item exceeds \$10,000, the county shall prepare an invitation to bid for that item and states all factors to be considered for that purchase. We recommend the fiscal court adhere to the administrative code when any expenditure exceeds \$10,000.

County Judge/Executive David Blair's Response:

This was done by the prior Charles Pennington administration. We, the new administration, understand we have to follow the bidding requirements.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2007-03 The County Judge/Executive Improperly Spent \$26,500 Of County Road Aid Money

The Judge/Executive entered into two memoranda of agreement with the Kentucky Transportation Cabinet to purchase four trucks for the road department totaling \$26,500. The agreements required that \$26,500 be paid to the Transportation Cabinet on or before August 10, 2007 or the Kentucky Transportation Cabinet could withhold or offset the amount from future funding. On August 27, 2007, the Kentucky Transportation Cabinet created an inter-account transaction to reimburse the Division of Equipment \$26,500 from the fiscal court's county road aid. The Judge/Executive did not get the approval of the fiscal court for the payment of this equipment through their road aid funds. We recommend the county follow proper purchasing procedures for all expenditures of county funds.

County Judge/Executive David Blair's Response:

I, Judge Blair, advised the Fiscal Court that I was going to Frankfort to try to purchase some used road equipment from the Kentucky Department of Transportation Cabinet and they agreed to do so. The Kentucky Department of Transportation withheld the funds to purchase said equipment from our road aid money. In the future, we will pay for all purchases by invoice and make required notification in the Fiscal Court minutes.

2007-04 The Fiscal Court Increased The County Jailer's Salary In Excess Of The Consumer Price Index By \$5,823

The Jailer's salary was increased in excess of the consumer price index of 3.3854%. KRS 64.527 provides that the increase to the salaries of jailers operating a non-full service jail shall be paid at a rate no greater than the consumer price index (CPI) stipulated by the Governor's Office for Local Development. In the prior year, the Jailer received \$20,000 in salary. In calendar year 2006, the fiscal court increased the Jailer's salary to \$26,500 constituting a raise in his salary of \$6,500. The \$6,500 salary increase results in an increase of 32.5%. This exceeds the CPI increase for calendar year 2006 by \$5,823. We recommend the fiscal court not increase the Jailer's salary in excess of the CPI.

County Judge/Executive David Blair's Response:

This was done by the previous Charles Pennington administration. The current administration corrected this when we took office.

2007-05 The Fiscal Court Should Approve An Annual Compensation Schedule

A compensation schedule for all county employees was not presented to the fiscal court for approval. KRS 64.530(1) states, in part, "The fiscal court of each county shall fix the compensation of every county officer and employee." We recommend the fiscal court approve a salary compensation schedule as soon as possible.

County Judge/Executive David Blair's Response:

This will be addressed and corrected by the fiscal court.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESS

2007-06 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The fiscal court has a lack of segregation of duties because the Treasurer makes deposits, prepares checks, records all transactions, and reconciles the bank statements. Also, a separate appropriation ledger is not being maintained by the Judge/Executive's office. Good internal controls dictate that the same employee should not handle and record receipts and disbursements. To help offset this weakness, a receipts journal should be maintained by the Finance Officer and should be agreed to the Treasurer's receipts ledger at least monthly. Also, the Judge/Executive's office should maintain a separate appropriation ledger and this should be reconciled monthly to the Treasurer's appropriation ledger. Further, an independent person should review the Treasurer's monthly bank reconciliations for accuracy.

County Judge/Executive David Blair's Response:

Due to budget constraints, at this time we do not have the money to hire additional personnel to segregate duties in the treasurer's office. I do present to the fiscal court a balanced treasurer's report for all accounts each month.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND ECONOMIC DEVELOPMENT PROGRAMS**

ELLIOTT COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2007**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND ECONOMIC DEVELOPMENT PROGRAMS

ELLIOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Elliott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "David Blair", written over a horizontal line.

David Blair,
County Judge/Executive

A handwritten signature in black ink, appearing to read "Trina Sartaine", written over a horizontal line.

Trina Sartaine
County Treasurer

